

**REPORT TO: SCRUTINY COMMITTEE - 27 JUNE 2018**

**REPORT ON: 2017/18 INTERNAL AUDIT ANNUAL REPORT**

**REPORT BY: SENIOR MANAGER – INTERNAL AUDIT**

**REPORT NO: 207-2018**

## **1.0 PURPOSE OF REPORT**

To submit to Members of the Scrutiny Committee the 2017/18 Internal Audit Annual Report. This report summarises the activities of the Council's Internal Audit Service during this period and provides an independent annual opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control framework based on the work undertaken.

## **2.0 RECOMMENDATIONS**

Members of the Committee are asked to consider and note the contents of this report.

## **3.0 FINANCIAL IMPLICATIONS**

None

## **4.0 MAIN TEXT**

- 4.1** The terms of reference of the Scrutiny Committee, as detailed in Report No 274-2014 (Policy and Resources Committee 10 November 2014, Article V) includes consideration of the strategy, plan and performance of the Council's Internal Audit Service. In addition, the Committee is also required to consider internal audit reports and seek assurance that appropriate action has been taken, monitor the implementation of internal audit recommendations agreed with management and receive the Annual Report of the Senior Manager – Internal Audit.
- 4.2** The Public Sector Internal Audit Standards (PSIAS), which came into effect from 1 April 2013, revised from 1 April 2017, apply to all internal audit service providers within the public sector and set out the requirements in respect of professional standards for these services. Professional Standard 2450, Overall Opinions states that *"the chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement"*. In the context of Dundee City Council, the *"chief audit executive"* is the Senior Manager – Internal Audit.
- 4.3** The PSIAS specifically states that the annual report prepared by the chief audit executive must incorporate:
- the annual internal audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control;
  - a summary of the information that supports that opinion; and
  - a statement of conformance with the PSIAS and the results of the quality assurance and improvement programme.
- 4.4** It should also be noted that the Local Authority Accounts (Scotland) Regulations 2014 became effective in October 2014. Under these regulations *"a local authority must operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing"*. In this context, recognised standards and practices are deemed to be those set out in the PSIAS. These Regulations also require that *"the local authority must conduct a review at least once a year of the effectiveness of its system of internal control"*. In respect of this and from an internal audit perspective there is a requirement that *"the findings from assessments must be considered as part of the consideration of the system of internal control"*.
- 4.5** The Internal Audit Annual Report for the 2017/18 financial year, which is attached for consideration by Elected Members, has been prepared on the basis of the requirements outlined above.

## **5.0 POLICY IMPLICATIONS**

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

## **6.0 CONSULTATIONS**

The Chief Executive, Executive Director of Corporate Services, Head of Corporate Finance and Head of Democratic and Legal Services have been consulted on the content of this report.

## **7.0 BACKGROUND PAPERS**

None

Pamela Redpath, Senior Manager – Internal Audit

DATE: 13 June 2018

# 2017/18 INTERNAL AUDIT ANNUAL REPORT

## 1. PURPOSE OF REPORT

- To summarise the key areas of activity undertaken by the Council's Internal Audit Service and highlight any matters of significance that have arisen as a result of the audit process during the 2017/18 financial year.
- To provide an independent opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control framework.

## 2. GOVERNANCE, RISK MANAGEMENT AND CONTROL FRAMEWORK

- The Council has been operating within a significantly changing environment for some time and, as a result of resource constraints, it is expected that the level and pace of change will continue for the foreseeable future. Locally, changes include an organisational re-structure comprising the amalgamation / realignment of former departments, establishment of the Dundee Health and Social Care Partnership, responsible for the operational delivery of health and social care services, as well as the development of new City and Council Plans setting out the organisation's vision and priorities. As a result of this continually changing and complex landscape, governance arrangements, including risk management and control, are required to continually evolve to support it.
- The governance framework comprises the systems, processes, culture and values by which the activities of the Council are directed and controlled and through which they are accountable to, engage with and, where appropriate, lead the community. It enables the Council to monitor the achievement of its strategic objectives and consider whether those objectives have led to the delivery of appropriate cost effective services.
- Risk management is a fundamental element of good governance and decision making. The Council's risk management arrangements are intended to support the identification, documentation, scrutiny, and management of both current and emerging risks. The range and extent of services provided by the Council result in a varied and complex risk profile. It is, therefore, important that there are sound risk management arrangements in place to capture all risks and manage and escalate these appropriately. Effective risk management arrangements should include a clear risk strategy and supporting framework, including documented processes for capturing and managing risks at a strategic and operational level and assigning ownership over individual risks and associated mitigating controls. This is an area that is currently being developed.
- The system of control is a significant part of this framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can, therefore, only provide reasonable and not absolute assurance of effectiveness. It is based on an ongoing process designed to identify and prioritise the risks that may impact on the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact they may have if they are, and to manage them efficiently, effectively and economically.

## 3. ROLE OF INTERNAL AUDIT

- Internal audit is a fundamental element of Dundee City Council's governance and assurance framework. During 2017/18, the Internal Audit Service was independent of the activities audited. This is essential to ensure that the Service provides unbiased judgements and impartial advice to management. Through the provision of a high quality, independent, objective assurance and consulting activity, guided by the philosophy of adding value, the Service aims to bring a systematic and disciplined approach to evaluating and improving the effectiveness of the organisation's governance, risk management and control framework. This role includes having an understanding of the key risks to which the Council is exposed.
- The Internal Audit Service, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to all of the organisation's records, physical properties and personnel relevant to carrying out any engagement and effectively discharging its remit.

- The primary purpose of internal audit is to review, appraise and report on a diverse range of areas with a view to providing an internal audit opinion on the adequacy and effectiveness of the organisation's governance, risk management and control framework. The Internal Audit Plan should, therefore, include a programme of work that is sufficient and diverse enough to enable the opinion to be provided. The types of review undertaken are grouped into key themes which are integral to the assurance gathering process across the organisation's activities, namely governance, ICT, systems, procurement / contract and financial. In addition, the Internal Audit Service may also provide advice and guidance on governance, risk management and control matters, including during specific investigations.
- The existence of an Internal Audit Service does not, however, diminish the responsibility of management to ensure that resources are utilised appropriately, in a manner and on the activities intended, and governance, risk management and control arrangements are sufficient to address the risks that their services are exposed to.
- The Internal Audit Charter, updated in 2018 (Article VI of the minute of meeting of this Committee of 14 February 2018 refers) sets out in more detail, within the context of Dundee City Council, the purpose, authority and responsibility of the Internal Audit Service.

#### **4. AUDIT PLANNING**

- A key component in the effective management of internal audit is planning audit work to ensure that objectives are met, priorities are established, resources are targeted and used effectively, best value is achieved and cognisance is taken of the risk(s) associated within each area.
- To ensure planning is operationally effective, Internal Audit is required to have a clear understanding of the Council's functions / activities, associated risks and potential range and breadth of audit areas for inclusion within the plan. The Internal Audit Plan is compiled on an annual basis and provides a summary of the areas where it is planned that work will be carried out during the forthcoming year. The Internal Audit Plan for the 2017/18 financial year (Article VI of the minute of meeting of this Committee of 19 April 2017 refers) provides more detail surrounding its development. In line with recognised good practice, however, the Internal Audit Plan was prepared on the best information available at that time.
- The internal audit arrangements are assessed on an annual basis by the Council's External Auditor. In 2017/18 the External Auditor was Audit Scotland. As part of this assessment, the External Auditor considers the activities of internal audit, principally to obtain an understanding of the work carried out and determine the extent to which assurance can be placed on its work. This approach helps to minimise duplication of effort and unnecessary disruption to Council services.

#### **5. AUDIT REPORTS**

- Each audit assignment results in an internal audit report, which includes an executive summary as well as audit findings, recommendations and management responses, where appropriate. The audit report provides management with an action plan, which assigns responsibility and details the timetable for implementation of audit recommendations.
- Within all audit reports a judgement is given on the importance of each audit finding i.e. critical, significant or routine. These judgements are utilised to determine the overall level of assurance / opinion to be assigned to the area that has been subject to review. There are generally four overall levels of assurance i.e. full, reduced, limited and no assurance with corresponding standard opinions. The overall opinion is detailed in the executive summary of each report.
- The findings and recommendations arising from the audit assignments reported upon since the last Annual Report have been discussed and agreed with appropriate officers of the Council and action plans have been put in place to address the areas identified for improvement. The executive summary from each report has been submitted to the Scrutiny Committee for consideration.
- To confirm that management is discharging its responsibility in terms of implementing audit recommendations within the agreed timescales, Internal Audit undertakes formal follow-up work and progress reviews. The outcomes from these exercises are also formally reported to relevant officers and the Scrutiny Committee, along with revised implementation dates where appropriate. During the coming year recommendations will be followed up via Pentana, the Council's performance / risk management system.

## 6. KEY EVENTS

- Key events during 2017/18 impacting directly on the Internal Audit Service include the appointment of a new co-sourcing partner, KPMG, for the delivery of internal audit services and completion of the first External Quality Assessment (EQA), carried out by East Lothian Council, a summary of which can be found below.
- In addition, key strategic events impacting on the Internal Audit Service during 2017/18 include the appointment of new Elected Members following the Scottish Local Elections in May 2017; the appointment of a new Executive Director of Corporate Services; publication of the new City and Council Plans; compilation of the revised Corporate Risk Register; and formal outcome of the serious fraud incident and publication of the Accounts Commission's corresponding Section 102 Report.
- Going forward, changes to the way the Council delivers its services will be driven by a number of internal and external factors including the C2022 transformational change agenda; Tay Cities Deal; the Waterfront Development; the Education Reform Agenda; GDPR compliance and Brexit. In addition, governance arrangements for the Dundee Health and Social Care Partnership and its Integration Joint Board will continue to evolve.
- The continuous impact of funding cuts and change on Council services has resulted, and will continue to result, in a challenging environment in which internal audit services require to be planned and delivered. Steps will continue to be taken to ensure that any related potential difficulties are identified and managed timeously.
- The Internal Audit Service operated in 2017/18 in conformance with the PSIAS. A requirement of the PSIAS is that the Chief Audit Executive develops and maintains a Quality Assurance and Improvement Programme (QA&IP) that covers all aspects of the internal audit activity. The QA&IP must include both periodic internal self-assessments and five-yearly external assessments, carried out by a qualified, independent assessor from outside the organisation, and enable evaluation of the internal audit activity's conformance with the PSIAS, including the Definition of Internal Auditing and Code of Ethics. In addition, the QA&IP should also assess the efficiency and effectiveness of the Internal Audit Service and identify opportunities for improvement. The PSIAS came into effect in April 2013 and thereafter an initial self-assessment exercise was undertaken. The outcome of that exercise, including potential areas for improvement contained within a QA&IP Action Plan, was formally reported to Scrutiny Committee in 2014 (Article VI of the minute of meeting of this Committee of 10 December 2014 refers). Since then, further self-assessments have been undertaken periodically to monitor progress towards implementing the QA&IP Action Plan, ensure that the Service continues to conform to the requirements of the PSIAS as it evolves / is revised and identify further areas for improvement. A copy of the original QA&IP Action Plan with progress updates can be found at Appendix C. The outstanding elements from the original QA&IP Action Plan have been carried forward into the 2017/18 Action Plan, along with additional areas for improvement identified through the most recent self-assessment process. The 2017/18 Action Plan can be found at Appendix D. It should be noted that none of the areas requiring improvement represent a significant deviation from the requirements contained within the PSIAS.
- To assist its members to meet the five-yearly external assessment requirement detailed in the PSIAS, the Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) established a collaborative system of formal peer reviews. The Internal Audit Service's first EQA was undertaken by East Lothian Council's Internal Audit Manager and her team during 2017/18 under the SLACIAG arrangement. The outcome of this exercise was very positive, with the report concluding that the Council's Internal Audit Service fully conforms with 11 of the 13 standards and generally conforms with the remaining 2 standards. A copy of the full report is also presented to the Scrutiny Committee today (Report No. 208-2018).

## 7. PLAN ACHIEVEMENT

- For the 2017/18 financial year there was a total of 720 productive days used for direct audit activities. Although the number of productive audit days was broadly in line with the previous year, it represented a shortfall of 10% against the 800 budgeted productive audit days. This shortfall resulted from a number of unplanned activities, including the resource required to complete two tender exercises and attendance at meetings, both internally and externally,

surrounding the serious fraud incident. In terms of total productive days (audit and non-audit), approximately 70% was spent on direct audit activities and 30% was spent on support activities such as strategic management of the Internal Audit Service, audit planning, attendance at / contribution to national groups and staff training and development.

- The 2017/18 Internal Audit Plan included 32 specific internal audit assignments, both at a corporate and service level across the organisation. It also included an allocation of audit days for follow-up reviews, progress reviews, finalisation of audit assignments that commenced in the previous financial year and the provision of advice and guidance to services. Whilst work on the majority of the planned areas for corporate and service reviews included within the plan commenced in 2017/18, there was, due to a number of factors, some re-scheduling of work into the 2018/19 work programme. The reasons behind this varied and included, the area for review not being as well advanced as planned, organisational changes, staff availability and an increasing number of enquires in respect of ad-hoc advice and guidance.
- As part of the continuous improvement process within the Internal Audit Service, client feedback questionnaires are issued at the conclusion of each audit. Feedback from this process is used, where appropriate, to improve the quality of the Internal Audit Service going forward. During 2017/18, 14 completed client feedback questionnaires were received. Responses were generally very positive across Audit Approach, Communication and Conduct and Audit Report, with an average of 92.8% strongly agreeing or agreeing with the statements. In relation to Timing, specifically completion of the audit within an acceptable timescale, 6 of the responses returned a less favourable response. The issues identified above are partly responsible for the delays in completing the audits.

## **8. OVERALL ASSESSMENT OF GOVERNANCE, RISK MANAGEMENT AND CONTROL**

- Internal Audit activity covered a diverse range of areas including Journal Entries, Online Payments, Children in Residential Care, Revenue Monitoring, Dangerous Buildings and Public Safety, Health and Safety, Emergency Planning, Risk Management, CDM Regulations, Lone Working, Occupational Road Risk, Festivals and Events, Data Security, E-mail Security, User Access Levels, Stocks and Inventories, Grant Claims and Follow-up Reviews. The range of areas covered within the organisation continues to reflect the changing landscape and nature of internal audit work and focusses upon evaluating and contributing to improving the organisation's governance, risk management and control framework.
- The 2017/18 reviews of corporate and service systems identified that many of the expected controls are in place and operating satisfactorily in the areas examined. However, audit work also identified a number of areas requiring improvement and, consequently, Internal Audit reports included a range of recommendations and action plans (developed in consultation with management), which, once implemented, will improve the organisation's governance, risk management and control framework.
- In addition, whilst not necessarily directly informed through the planned programme of work, the Internal Audit Service has assisted the Council, through the provision of advice and guidance, to make a number of improvements during 2017/18 to its governance, risk management and control framework, including improvements around the revised corporate Whistleblowing Policy and associated recording and monitoring framework, the new approach to Officers' Register of Interests, Mosaic, assurance gathering and resilience in general via the Integrity Group.
- A number of areas are identified as requiring further improvement / development during 2018/19, including the Council's risk management arrangements, business continuity planning, procurement framework for construction and building services, performance management framework and the re-introduction of control self-assessment audits within Council establishments. In addition, further improvements are being taken forward surrounding procurement in general. Senior officers in the Council are aware of these areas requiring improvement and steps are being taken to address them. Some of these areas should feature, alongside other areas requiring improvement, in the Continuous Improvement Agenda of the Council's Annual Governance Statement and will be formally reviewed and reported on by Internal Audit during the 2018/19 financial year.
- A total of 26 internal audit reports (including the IJB Workforce report) have been finalised since the last Annual Report was issued. A summary of these reports is attached at Appendix A, along with a summary of the progress review exercise carried out during 2017/18. In general, these

reports have been well received by clients, with management agreeing to implement 100% of the recommendations made. A total of 89 recommendations were made in the reports issued (excluding the 3 recommendations contained within in the IJB Workforce report where a different scoring mechanism was utilised for assurance purposes). Of these, 1 was categorised as critical, 58 were significant and the remaining 30 were considered to be routine. In comparison, 67 recommendations were made the previous year.

- Analysis of the overall audit opinion for the reports issued highlighted that 12% of the areas reported upon were considered to be well controlled (full assurance), 36% were adequately controlled (reduced assurance) and 48% were requiring improvement (limited assurance). In addition, the overall conclusion drawn from one review, Risk Management Arrangements, was that there were significant weaknesses in the system which must be addressed. The critical recommendation mentioned above is contained within that report. Since completion of the audit fieldwork, a considerable amount of work has been undertaken by management to take forward the improvements recommended in the Risk Management Arrangements audit report, including addressing the critical recommendation, which relates to risk management roles and responsibilities. The imminent appointment of the new Corporate Risk Management Co-ordinator will assist the organisation with ensuring continuous improvement in this area. A formal follow-up of Risk Management is scheduled to be undertaken as part of the 2018/19 Internal Audit Plan. A watching brief will continue to be kept on the global profile of the overall audit opinions.
- The PSIAS requires the Senior Manager – Internal Audit to deliver an internal audit opinion on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control and that this opinion be used to inform the Council’s Annual Governance Statement. This principle is also affirmed in the Local Authority Accounts (Scotland) Regulations 2014. Attached at Appendix B is the Senior Manager – Internal Audit’s opinion, which is supported by the audit work carried out by the Internal Audit Service and other relevant information. On the basis of the areas used to inform this process for the year to 31 March 2018, the overall audit opinion reached is that reasonable assurance can be placed upon the adequacy and effectiveness of the Council’s framework of governance, risk management and control.

## Summary of Internal Audit Reports and 2017/18 Progress Review Exercise

Key - Overall Level of Assurance			
<b>F = Full</b> The principal conclusion drawn from this review is that there is a sound system of control designed to achieve the system objectives and that the controls are being consistently applied.	<b>R = Reduced</b> The principal conclusion drawn from this review is that whilst there is basically a sound system of control there are some areas where it is viewed improvements can be made.	<b>L = Limited</b> The principal conclusion drawn from this review is that there are weaknesses in the system which should be addressed.	<b>N = No</b> The principal conclusion drawn from this review is that there are significant weaknesses in the system which must be addressed.

## i) Summary of Internal Audit Reports

Report No.	Area Reviewed	Level of Assurance	Recommendations			
			Total No.	Importance		
				Critical	Significant	Routine
2015/17	Online Payments	R	3	-	1	2
2016/04	Children in Residential Care	R	3	-	2	1
2016/05	School Transport	R	4	-	3	1
2016/07	PVG Scheme	R	3	-	1	2
2016/14	Construction Design and Management (CDM) Regulations 2015	L	3	-	2	1
2016/15	Pension Fund - Administration	R	3	-	1	2
2016/17	Journal Entries	L	4	-	2	2
2016/20	IJB Workforce ^	IJB scoring mechanism utilised.				
2016/21	Revenue Monitoring	L	3	-	3	-
2016/23	Health and Safety	L	5	-	4	1
2016/25	Risk Management	L	2	-	2	-
2016/27	Emergency Planning	L	7	-	4	3
2016/28	Dangerous Buildings and Public Safety	L	3	-	2	1
2016/30	Occupational Road Risk *	L	4	-	4	-
2016/31	Risk Management Arrangements	N	9	1	7	1
2016/32	Stocks and Inventories – 2016/17 Year End	R	1	-	1	-
2017/01	16/17 Grant Claim: Local Authority Air Quality Action Plan	F	0	-	-	-
2017/02	16/17 Grant Claim: Local Air Quality Management	F	0	-	-	-
2017/03	Employability and Skills	F	0	-	-	-
2017/05	Pay on Foot Parking	R	6	-	5	1
2017/06	Interreg Create Converge Project	R	2	-	1	1
2017/07	Lone Working *	L	4	-	3	1
2017/11	User Access Levels *	L	6	-	2	4
2017/13	Festivals and Events *	R	4	-	2	2
2017/20	Data Security *	L	5	-	4	1
2017/21	E-mail Security *	L	5	-	2	3

\* Submitted to June Scrutiny Committee (Report 205-2018)

^ Submitted to June Scrutiny Committee (Report 206-2018)



**ii) Summary of 2017/18 Progress Review Exercise**

As part of the 2017/18 Audit Plan, a total of 47 internal audit reports, 30 of which were also part of the 2016 Progress Review Exercise, were subject to a progress review. In total there were 98 outstanding recommendations from these audit reports. A summary of the outcome of the progress review exercise is detailed in the table below. A report providing more detail on the progress towards implementing internal audit recommendations previously reported to and agreed by management was presented to Scrutiny Committee in September 2017 (Article IV of the minute of meeting of this Committee of 27 September 2017 refers).

No. of Recommendations Outstanding	Fully Implemented	Partly Implemented	Not Implemented
98	45%	50%	5%

None of the recommendations recorded as 'not implemented' were critical. For the recommendations that were partly implemented or not yet implemented, assurances were provided to Internal Audit by management that the outstanding areas would be addressed and, where feasible, revised timelines were provided for completion. In terms of management responses to the progress reviews that were undertaken as part of the 2017/18 Plan, it was evident again that there had been slippage in the anticipated timeframes provided by management for the implementation of the recommendations in full. Whilst the specific reasons for this were varied, there were recurring themes, in line with the previous year, surrounding structural changes that had taken place since the original audit reports were issued, in some instances resulting in the transfer of operational responsibility within or between services, the ongoing replacement of IT systems and changes in the way services are being delivered.

An update on progress towards full implementation of the outstanding recommendations will be sought during the 2018/19 Progress Review Exercise and reported to Scrutiny Committee. Work has commenced to enable the Council's performance / risk management system, Pentana, to be used to follow-up and obtain regular updates on progress towards implementation of outstanding audit recommendations.

## **To the Members of Dundee City Council, Chief Executive and Executive Director of Corporate Services**

As Senior Manager – Internal Audit of Dundee City Council, I am pleased to present my annual opinion for the year ended 31 March 2018. It should be noted that the statement does not include assurances on group activities.

### **Respective Responsibilities of Management and Internal Audit in Relation to the Governance, Risk Management and Control Environment**

It is the responsibility of the Council's officers to determine, establish and maintain sound systems of governance, risk management and control, to ensure that the organisation's resources are properly applied in a manner and on the activities intended and that these arrangements are sufficient to address the risks facing their services. This includes responsibility for the prevention and detection of fraud. Management is also charged with monitoring the continuing effectiveness of these arrangements and taking action as appropriate. It is the responsibility of the Senior Manager – Internal Audit to provide an annual assessment of the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

### **Control Environment**

This comprises the governance, risk management and control processes in the context of the Council's defined goals and objectives. The key elements include the following:

- Consistency of operations with established goals and objectives.
- Effectiveness and efficiency of operations and deployment of resources.
- Compliance with significant policies, plans, procedures, laws, and regulations.
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information.
- Safeguarding of assets.

A sound control environment reduces, but cannot eliminate, the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances. It therefore provides reasonable but not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud or breaches of law or regulations. Accordingly, the Council is continually seeking to improve the adequacy and effectiveness of its control environment.

### **The Focus of Internal Audit Work**

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. Through its work, internal audit helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management and control. The Council's Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and the Local Authority Accounts (Scotland) Regulations 2014. The requirements under PSIAS represent best practice and these, along with the Regulations, are mandatory.

The Senior Manager – Internal Audit prepares an annual internal audit plan which outlines the work to be undertaken. The internal audit plan is developed utilising a risk-based methodology based on the audit universe and takes into account the requirement placed upon the Senior Manager – Internal Audit to deliver an annual internal audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. In compiling the plan, input from Elected Members, senior management and any other relevant parties are sought and cognisance is taken of emerging issues. The plan needs to be flexible to be able to reflect the changing risks and priorities of the organisation. The plan, any material changes to the plan during the course of the financial year and any significant matters that may impact upon the delivery of the plan are reported to the Scrutiny Committee as appropriate.

The Internal Audit Service formally reports upon the areas subject to review. Such reports, which identify system weaknesses and / or non-compliance with expected controls, are issued for the attention of service managers and include appropriate recommendations and agreed action plans. It is management's responsibility to ensure that due consideration is given to internal audit reports. This includes management taking remedial action where appropriate or accepting that there may be a level of risk exposure if the weaknesses identified are not addressed for operational reasons. Internal Audit has a responsibility to ensure that agreed action plans have been implemented. Matters arising from internal audit work are also reported to the Council's Scrutiny Committee, the Chief Executive, the Council Management Team and the Council's External Auditor.

### **Summary of Internal Audit Activity**

A total of 26 internal audit reports were issued. These covered a diverse range of areas including Journal Entries, Online Payments, Children in Residential Care, Revenue Monitoring, Dangerous Buildings and Public Safety, Health and Safety, Emergency Planning, Risk Management, CDM Regulations, Lone Working, Occupational Road Risk, Festivals and Events, Data Security, E-mail Security, User Access Levels, Stocks and Inventories, Grant Claims and Follow-up Reviews. The Internal Audit Service also undertook a comprehensive progress review exercise during the year and provided advice and guidance as required on the Council's control environment.

The 2017/18 audit of corporate and service systems has identified that many of the expected controls are in place and operating satisfactorily. However, the audit work has also identified scope for improvement in some systems. The Internal Audit Service has made a range of recommendations in the areas examined and action plans have been developed in consultation with management which, as they are implemented, should result in continued improvement of the Council's governance, risk management and control environment.

### **Limitation of Scope**

In the financial year under review there was no limitation of scope or independence placed upon the work undertaken by the Internal Audit Service.

### **Basis of Opinion**

My evaluation of the framework of governance, risk management and control is informed by a number of sources which include the following:

- Audit work undertaken by the Internal Audit Service.
- The assessment of risk completed during the preparation of the 2017/18 and 2018/19 internal audit plans.
- Knowledge of the Council's culture, governance, risk management and performance monitoring arrangements.
- The Self Assessment Checklists completed by the relevant Executive Directors / Heads of Service (including the checklists received from the Dundee Health and Social Care Partnership) for providing formal assurances in respect of the general control environment within individual services.
- Reports issued by the Council's External Auditor together with reports from other external review and inspection bodies.

### **Opinion**

It is my opinion, based on the above, that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and control for the year to 31 March 2018.

*Pamela Redpath*

**DATE**

**13 June 2018**

**Senior Manager – Internal Audit  
Dundee City Council**

## Quality Assurance and Improvement Programme – 2014 Action Plan Update

Standard /Area	Action	Original Implementation Date	Update (Outstanding elements carried forward to 2017/18 Action Plan)
1200 - Job Descriptions / Person Specifications	Review and update to ensure that they adequately reflect current roles and responsibilities for the post and define the required qualifications, skills and attributes.	31 March 2015	<b>Partly Implemented</b> The Senior Manager – Internal Audit and Principal Internal Auditor job descriptions and person specifications were comprehensively reviewed. The Auditor job description, which is linked to a wider career grade structure within Corporate Finance, in the process of being reviewed.
1200 / Continuing Professional Development	Further develop training requirements in line with best practice.	30 June 2015	<b>Fully Implemented</b> Excellent Internal Auditor utilised as part of the Employee Performance and Development Review process.
1300 / External Assessment	Determine when this will be carried and how it will be undertaken.	30 September 2015	<b>Fully Implemented</b> External Quality Assessment carried out by East Lothian Council.
1300 / Performance Monitoring	To assess and refine the current performance framework in place to improve service delivery.	30 June 2015	<b>Partly Implemented</b> The Internal Audit Service reports performance using the CIPFA Director of Finance PI measures, which are reported annually. Feedback questionnaires are also used to obtain comments on the work of the Internal Audit Service and are summarised and reported within the annual audit report. The Senior Manager – Internal Audit will be developing the performance management / monitoring framework to feed into the Corporate Finance Service Scorecard.

Standard / Area	Action	Original Implementation Date	Update (Outstanding elements carried forward to 2017/18 Action Plan)
2000 / Assurance Mapping	To complete the assurance mapping exercise currently ongoing and thereby formalise the approach to utilising other sources of assurance.	30 September 2015	<b>Partly Implemented</b> Development of the Council-wide assurance map is work in progress and will be picked up and developed further by the new Corporate Risk Management Co-ordinator.
2300 / Records Management	Review the record retention schedules for the engagements that have been undertaken and update as appropriate.	31 March 2015	<b>Fully Implemented</b> However, this is in the process of being reviewed again following the introduction of GDPR.
2400 / Communicating Results	Formally advise clients that engagements have been conducted in conformance with the PSIAS.	31 December 2014	<b>Fully Implemented</b> The covering e-mail used for final internal audit reports makes reference to this.
2400 / Audit Opinions	Review the terminology included in the reporting of engagements and update as appropriate.	31 March 2015	<b>Partly Implemented</b> Benchmarking underway to determine what terminology is utilised by other internal audit services to communicate the audit opinion. A consultation will take place with key stakeholders before any changes are made.
2500 / Monitoring Progress	Further improve the progress and follow-up review process to ensure the actions agreed have been satisfactorily implemented.	30 June 2015	<b>Fully Implemented</b> Enhancements have been made to further improve the progress and follow-up processes, including sharing of information with the CMT, Executive Directors and Service Management Teams. Pentana will be utilised to monitor the recommendations going forward and testing has already started.

## Quality Assurance and Improvement Programme – 2017/18 Action Plan

Standard /Area	Action	Implementation Date
1100 / Reporting	Consider how best to provide updates and reports on Internal Audit Plan progress to the Scrutiny Committee.	31 December 2018
1200 / Job Descriptions & Person Specifications	Refresh Internal Auditor Job Description and Person Specification.	30 September 2018
1200 / Continuing Professional Development	More formal recording of training / awareness raising for all staff in the team.	30 June 2018
1300 / Performance Monitoring	Develop performance management / monitoring framework for the Service to feed into the Corporate Finance Service Scorecard.	30 September 2018
2000 / Assurance Mapping	Develop the use of assurance mapping.	30 September 2018
2100 / Risk Management	Link Internal Audit plan and reviews to risk registers once these have fully developed in the organisation.	31 March 2019
2400 / Audit Opinions	Refresh standard recommendation / overall conclusions levels and associated terminology following conclusion of benchmarking exercise and stakeholder consultation.	31 March 2019

	Element Carried Forward from original QA&IP Action Plan
	Also in EQA Action Plan
	New Action